

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Eaton County Road Commission	County Eaton County
Audit Date 9/30/04	Opinion Date 12/14/04	Date Accountant Report Submitted to State: 4/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature 		Date 4/21/05	

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

SEPTEMBER 30, 2004
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EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

ANNUAL FINANCIAL STATEMENTS
WITH
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2004

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Eaton County
Charlotte, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Eaton County, Michigan, a component unit of Eaton County, Michigan, as of September 30, 2004, and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Eaton County, Michigan, as of September 30, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 14, 2004, on our consideration of the Road Commission of Eaton County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Eaton County Road Commission. The schedules on pages 26-28 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Eaton County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Braunstein + Whipple".

Certified Public Accountants

December 14, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Eaton County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide an understanding of the Eaton County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Eaton County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Eaton County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation and sick).

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

The Eaton County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$74,189,523 at the end of the fiscal year.

The net assets is separated into three major components, investment in capital assets of \$70,630,311 or 95.2% of net assets, restricted net assets of \$1,399,180 or 1.9%, and finally unrestricted net assets of \$2,160,032 or 2.9%. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local Roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, net of related debt and unrestricted net assets).

Because this is the second year of implementation of Governmental Accounting Standards Board No. 34, which requires this reporting model, the following table presents current year data, as well as the prior year for comparative analysis.

Condensed Statement of Net Assets

	2004	2003	Variance
Assets –			
Current and other unrestricted assets	\$ 4,729,176	\$12,968,049	\$(8,238,873)
Capital Assets	<u>77,510,311</u>	<u>70,799,197</u>	<u>6,711,114</u>
Total Assets	<u>82,239,487</u>	<u>83,767,246</u>	<u>(1,527,759)</u>
Liabilities –			
Long-term liabilities outstanding	7,193,053	7,557,042	(363,989)
Other liabilities	<u>856,911</u>	<u>2,451,164</u>	<u>(1,594,253)</u>
Total Liabilities	<u>8,049,964</u>	<u>10,008,206</u>	<u>(1,958,242)</u>
Net Assets –			
Invested in capital assets, net of related debt	70,630,311	63,195,295	(7,435,016)
Restricted	<u>1,399,180</u>	<u>7,844,339</u>	<u>(6,445,159)</u>
Unrestricted	<u>2,160,032</u>	<u>2,719,406</u>	<u>(559,374)</u>
Total Net Assets	<u>\$74,189,523</u>	<u>\$73,759,040</u>	<u>\$ 430,483</u>

Condensed Statement of Activities

Revenues –			
Federal Sources	926,638	1,031,378	(104,740)
State Sources	8,552,741	18,822,700	(10,269,959)
Local Sources	1,356,567	1,971,989	(615,422)
Other	<u>307,626</u>	<u>583,183</u>	<u>(275,557)</u>
	<u>11,143,572</u>	<u>22,409,250</u>	<u>(11,265,678)</u>
Expenditures –			
Maintenance	3,735,111	3,245,227	489,884
Administration	724,368	652,042	72,326
Equipment	(34,881)	-205,039	70,158
Other and Interest	598,923	439,940	158,983
Depreciation	<u>5,789,568</u>	<u>6,071,847</u>	<u>(282,279)</u>
	<u>10,713,089</u>	<u>10,204,017</u>	<u>(509,072)</u>
Change in Net Assets	<u>\$ 430,483</u>	<u>\$12,205,233</u>	<u>\$11,774,750</u>

Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Road Commission reported an ending fund balance of \$3,551,455, a decrease of \$6,652,761 from the prior year. Approximately 59% or \$2,129,581 of the fund balance constitutes unreserved fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because \$22,695 has been prepaid and \$1,399,180 has been reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2003-04 budget to reflect status changes in construction, heavy maintenance and maintenance projects. The final budget was \$6,424,300 less in revenues, and \$2,895,419 less in expenditures than the original budget primarily for these reasons. The actual adjusted 2003-04 revenues were approximately \$573,772 less than the amended budget which is 5.43% under budget. The actual adjusted expenditures were \$342,733 more than the amended budget which was 1.96% in excess. The amended budget in excess of revenues and expenditures was within 3.36% of actual results.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Road Commission has \$ 77,510,311 in capital assets at the end of the year. The reason for the increase from the previous year was the purchase of new road equipment, the completion of facility renovations, and the capitalization of heavy maintenance road and bridge projects funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at September 30, 2004 in comparison to the previous year is as follows:

	2004	2003
Land and improvements	\$14,429,741	\$12,913,443
Buildings and improvements	4,924,583	2,130,109
Equipment	988,378	1,036,697
Infrastructure	<u>57,167,609</u>	<u>54,718,948</u>
	<u>\$77,510,311</u>	<u>\$70,799,197</u>

Additional information on the Road Commission's capital assets activity may be found in Note 7 to the financial statements.

Long-Term Liabilities – At the end of the current year, the Road Commission had total bond and note debt outstanding of \$8,667,574. The debt is backed by the full faith and credit of Eaton County. The total debt was issued in anticipation of and payable from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto. A summary of the Motor Transportation Debt is as follows:

	2004	2003
Michigan Transportation Bonds – Series 1998	\$1,596,650	\$1,765,000
Michigan Transportation Bonds – Series 2003	7,070,924	5,500,000

Additional information on the Road Commission's long-term liabilities may be found in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of Commission revenue streams are declining. Long-term state fiscal crises are affecting local abilities to provide increased levels of maintenance. Long-term crises are also affecting cost sharing programs currently in effect with township transportation partners. Potential legislative relief in terms of a tax increase seems unlikely due to the economical conditions at the State level, that could help to improve resource allocations to maintenance and improvement efforts.

Our 2004-05 budget is programmed for revenues which are decreased in most areas except for increased funding for road reconstruction through federal funding. Expenditures will increase in areas of road improvement efforts and surface preservation. Expenditures will exceed revenues during the year with a planned reduction of available operating funds. It is anticipated our fund equity will reduce by \$1,500,000 during 2005.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Eaton County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be address to the Eaton County Road Commission, 1112 Reynolds Road, Charlotte, Michigan, 48813.

BASIC FINANCIAL STATEMENTS

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 2,153,622	\$ -	\$ 2,153,622
Due from other governmental units -			
State	1,386,590	-	1,386,590
Local	248,036	-	248,036
Accounts receivable	213,969	-	213,969
Prepaid expenditures/expenses	22,695	361,258	383,953
Restricted Assets -			
Cash equivalents	10,392	-	10,392
Inventory	332,614	-	332,614
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	14,429,741	14,429,741
Assets being depreciated	-	63,080,570	63,080,570
Total Assets	<u>\$ 4,367,918</u>	<u>\$ 77,871,569</u>	<u>\$ 82,239,487</u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts payable	\$ 217,923	\$ -	\$ 217,923
Contractor's retention payable	335,387	-	335,387
Accrued liabilities	62,906	-	62,906
Deposits and Advances	26,375		26,375
Accrued interest payable	-	40,448	40,448
Deferred Revenue	173,872		173,872
Bonds and notes payable, due within one year	-	435,000	435,000
Bonds and notes payable, due in more than one year	-	6,445,000	6,445,000
Long-term accrued vacation and sick	-	313,053	313,053
Total Liabilities	<u>816,463</u>	<u>7,233,501</u>	<u>8,049,964</u>

Fund Balance:

Fund Balance -			
Reserved -			
Prepaid expenditures	22,695	(22,695)	-
Primary/Local Roads	1,399,179	(1,399,179)	-
Unreserved -			
Undesignated	2,129,581	(2,129,581)	-
Total Fund Balance	<u>3,551,455</u>	<u>(3,551,455)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 4,367,918</u>		

Net Assets:

Invested in capital assets, net of related debt		70,630,311	70,630,311
Restricted -			
Primary/Local Roads		1,399,180	1,399,180
Unrestricted		2,160,032	2,160,032
Total Net Assets		<u>\$ 74,189,523</u>	<u>\$ 74,189,523</u>

See Notes to Financial Statements

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 94,346	\$ -	\$ 94,346
Intergovernmental -			
Federal sources	926,638	-	926,638
State sources	8,552,741	-	8,552,741
Local sources	1,356,567	-	1,356,567
Interest and rents	33,622	-	33,622
Other	109,808	-	109,808
Total Revenues	<u>11,073,722</u>	<u>-</u>	<u>11,073,722</u>
Other Financing Sources:			
County appropriation	<u>69,850</u>	<u>-</u>	<u>69,850</u>
Total revenue and other financing sources	<u>11,143,572</u>	<u>-</u>	<u>11,143,572</u>
Expenditures/Expenses:			
Current -			
Primary construction	2,960,495	(2,960,495)	-
Local construction	695,250	(695,250)	-
Primary heavy maintenance	3,659,546	(3,659,546)	-
Local heavy maintenance	1,779,917	(1,779,917)	-
Primary maintenance	1,681,915	1,142	1,683,057
Local maintenance	2,051,431	623	2,052,054
Administrative	777,726	(53,358)	724,368
Equipment	1,647,527	(545,325)	1,102,202
Less equipment rental			
charged to other activities	(1,237,083)	-	(1,237,083)
Depreciation		5,789,568	5,789,568
Other	330,385	-	330,385
Capital Outlay	3,405,893	(3,405,893)	-
Less: depreciation credit			
and retirements	(614,506)	614,506	-
Debt Service -			
Principal	385,000	(385,000)	-
Interest	272,837	(4,299)	268,538
Total Expenditures/Expenses	<u>17,796,333</u>	<u>(7,083,244)</u>	<u>10,713,089</u>
Excess of revenues over (under) expenditures/expenses	(6,652,761)	7,083,244	430,483
Fund Balance/Net Assets at October 1, 2003	<u>10,204,216</u>	<u>63,554,824</u>	<u>73,759,040</u>
Fund Balance/Net Assets at September 30, 2004	<u>\$ 3,551,455</u>	<u>\$ 70,638,068</u>	<u>\$ 74,189,523</u>

See Notes to Financial Statements

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 100,000	\$ 94,000	\$ 94,346	\$ 346
Intergovernmental -				
Federal sources	2,611,000	925,000	926,638	1,638
State sources	9,182,100	8,489,000	8,552,741	63,741
Local sources	326,000	697,000	1,356,567	659,567
Interest and rents	100,000	30,000	33,622	3,622
Other	100,000	265,000	109,808	(155,192)
Total Revenues	<u>12,419,100</u>	<u>10,500,000</u>	<u>11,073,722</u>	<u>573,722</u>
Other Financing Sources:				
County appropriations	75,000	69,800	69,850	50
Bond proceeds	4,500,000	-	-	-
Total Other Sources	<u>4,575,000</u>	<u>69,800</u>	<u>69,850</u>	<u>50</u>
Total revenues and other sources	<u>16,994,100</u>	<u>10,569,800</u>	<u>11,143,572</u>	<u>573,772</u>
Expenditures:				
Current -				
Primary construction	8,800,000	2,965,000	2,960,495	4,505
Local construction	300,000	-	695,250	(695,250)
Primary heavy maintenance	1,265,000	3,665,000	3,659,546	5,454
Local heavy maintenance	1,371,000	1,785,600	1,779,917	5,683
Primary maintenance	1,512,000	1,604,000	1,681,915	(77,915)
Local maintenance	1,800,000	1,960,000	2,051,431	(91,431)
Administrative	650,000	780,000	777,726	2,274
Equipment - net	-	450,000	410,444	39,556
Other	225,000	386,000	330,385	55,615
Capital Outlay - net	4,200,000	3,200,000	2,791,387	408,613
Debt Service	226,019	658,000	657,837	163
Total Expenditures	<u>20,349,019</u>	<u>17,453,600</u>	<u>17,796,333</u>	<u>(342,733)</u>
Excess of revenues over (under) expenditures	(3,354,919)	(6,883,800)	(6,652,761)	231,039
Fund Balance at October 1, 2003	<u>5,000,000</u>	<u>10,000,000</u>	<u>10,204,216</u>	<u>204,216</u>
Fund Balance at September 30, 2004	<u>\$ 1,645,081</u>	<u>\$ 3,116,200</u>	<u>\$ 3,551,455</u>	<u>\$ 435,255</u>

See Notes to Financial Statements

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Eaton County Road Commission, a component unit of the County of Eaton, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The more significant accounting policies are described as follows:

A. Description of Road Commission Operations –

The Eaton County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Eaton, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal awards and contributions from other local units of government (townships) for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to sixteen (16) Townships in Eaton County and maintains over 1,152 miles of local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents include investment trust funds which are recorded at cost which approximates fair value. The pooled investment funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories – Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of average cost or market.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an initial, individual cost of \$2,000 or more and an estimated useful life in excess of one year. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other fixed assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5-8 years
Roads	8-30 years
Bridges	15-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Deferred Revenues – In both the government-wide and the governmental fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Accrued Vacation and Sick Pay – In accordance with contracts negotiated with the various employee groups, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net assets).

Equipment Rentals – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Long-Term Obligations – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

Estimates – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A. Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 7).

Fund Balance – governmental fund	\$ 3,551,455
Capital assets used in the governmental fund statements that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	122,142,306
Deduct – accumulated depreciation	(44,631,995)

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):

Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	\$ (7,193,053)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	(40,448)
Prepaid expenses not reported in the governmental fund statements	<u>361,258</u>
Net Assets	<u>\$ 74,189,523</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide Statement of Activities (Page 8).

Excess of revenues under expenditures – governmental fund statement	\$ (6,652,761)
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capitalized assets and infrastructure	12,501,101
Deduct – retirements	(419)
Deduct – depreciation	(5,789,568)
Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)	385,000
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	7,558
Prepaid expense adjustment not reported in the governmental fund statements	583
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	(21,011)
Change in Net Assets	<u>\$ 430,483</u>

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Engineer-Manager of the Road Commission prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing October 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Operating Fund is adopted on the modified accrual basis which is consistent with accounting principles generally accepted in the United States of America.

Prior to September 30, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioner's Resolution. The budget is approved at the activity level by the Board of County Road Commissioners. After the budget is adopted, the Engineer-Manager is authorized to transfer up to 25% of budgeted amounts between items of the adopted budget without prior approval of the Board of County Road Commissioners. Individual amendments were material in relation to the original appropriation.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level and has not provided authority to the budget after year end. During the year ended September 30, 2004, the Road Commission had three over-expenditures as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS:

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Eaton County Treasurer's Office, and in order to make disbursements, the Eaton County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made to the County Treasurer.

Eaton County is authorized through its investment policy, which is in accordance with Act 20 PA 1943 as amended by Act 196 PA 1997, to invest the Road Commission surplus funds in the following types of investments:

- a) In bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States.
- b) In certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.
- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g) In mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h) In investment pool organized under the surplus funds investment Act, 367 of 1982.
- i) In investment pools organized under the local government investment Pool Act, 121 of 1985.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

Deposits -

As a component unit of Eaton County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Eaton County at banking institutions insured by federal depository insurance. However, the Road Commission by State statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts. At September 30, 2004, the carrying amount of the Road Commission's deposits is \$500, and the bank balance is \$329,025 in which \$100,000 is FDIC insured, and the remaining balance of \$229,025 is uninsured.

Due to significantly higher cash flow at certain periods during the year, the amount the Road Commission held as Cash and Cash Equivalents is significantly higher at these peak periods than at year end.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

Investments –

The Road Commission at September 30, 2004 held \$2,163,264 in financial institution investment pools that are not evidenced by securities that exist in physical or book entry form. The investment pool accounts are registered with the Securities and Exchange Commission and the fair value of the County's portion in the investment pools is the same as the value of the investment pool shares. The investment pool account have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the County may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The investment pools are recorded at cost which approximates fair value.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

The following is a summary of the financial statement presentation of Deposits and Investments at September 30, 2004:

	<u>Financial Reporting</u>
	Cash & Cash
	<u>Equivalents</u>
Deposits	\$ 500
Investments	<u>2,163,264</u>
	<u>\$ 2,163,764</u>

The caption cash and cash equivalents on the Balance Sheet also includes \$250 in petty cash.

The restricted cash equivalents at September 30, 2004 represent money restricted for debt service.

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other government units as of September 30, 2004 consists of the following:

State –	
Motor Vehicle Highway Funds	\$ 1,386,590
Local –	
Township road agreements	244,942
Other	<u>3,094</u>
	<u>\$ 1,634,626</u>

The governmental fund statements report deferred revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. Both the government-wide and governmental fund statements defer revenue recognition in connection with resources that have been received, but not earned.

NOTE 6 - INVENTORIES:

The inventory balance of \$332,614 at September 30, 2004 consisted of \$136,555 of road materials and \$196,059 of equipment parts and materials.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance October 1, 2003	Additions	Deletions	Removals	Balance September 30, 2004
Capital Assets, not being depreciated –					
Land	\$ 243,002	\$ -	\$ -	\$ -	\$ 243,002
Land Improvements	12,001,500	1,426,298	-	-	13,427,798
Right of Ways	668,941	90,000	-	-	758,941
Total Capital Assets, not being depreciated	<u>12,913,443</u>	<u>1,516,298</u>	<u>-</u>	<u>-</u>	<u>14,429,741</u>
Capital Assets, being depreciated –					
Buildings and improvements	3,662,403	2,982,255	-	(71,747)	6,572,911
Road Equipment	5,202,379	39,948	39,884	-	5,202,443
Shop Equipment	80,376	34,464	-	-	114,840
Office Equipment	415,863	201,171	-	-	617,034
Engineering Equipment	219,144	18,389	-	-	237,533
Yard and Storage Equipment	-	129,666	-	26,515	156,181
Infrastructure -					
Roads	76,716,272	4,025,782	-	(3,898,499)	76,843,555
Bridges	13,127,081	3,553,128	-	(6,550)	16,673,659
Traffic signals	1,190,000	-	-	-	1,190,000
Depletable assets –					
Gravel pits	59,177	-	-	45,232	104,409
	<u>100,672,695</u>	<u>10,984,803</u>	<u>39,884</u>	<u>3,905,049</u>	<u>107,712,565</u>
Less – accumulated depreciation for –					
Buildings and Improvements	1,532,294	141,256	-	(25,222)	1,648,328
Road Equipment	4,229,860	382,921	39,465	-	4,573,316
Shop Equipment	76,180	8,181	-	-	84,361
Office Equipment	380,970	53,358	-	-	434,328
Engineering Equipment	194,055	15,404	-	-	209,459
Yard and Storage Equipment	-	12,967	-	25,222	38,189
Infrastructure –					
Roads	31,713,480	4,640,540	-	(3,898,499)	32,455,521
Bridges	4,322,295	371,603	-	(6,550)	4,687,348
Traffic Signals	278,630	163,338	-	-	441,968
Depletable Assets	59,177	-	-	-	59,177
	<u>42,786,941</u>	<u>5,789,568</u>	<u>39,465</u>	<u>(3,905,049)</u>	<u>44,631,995</u>
Total Capital Assets, being depreciated, net	<u>57,885,754</u>	<u>5,195,235</u>	<u>419</u>	<u>-</u>	<u>63,080,570</u>
Governmental activity capital assets, net	<u>\$ 70,799,197</u>	<u>\$ 6,711,533</u>	<u>\$ 419</u>	<u>\$ -</u>	<u>\$ 77,510,311</u>

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 8 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended September 30, 2004, the Road Commission of Eaton County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$926,638 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however required to be reported by the Road Commission.

NOTE 9 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended September 30, 2004:

	Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004	Due Within One Year
MTF Bonds – Series 1998	\$1,765,000	\$ -	\$ 320,000	\$ 1,445,000	\$ 335,000
MTF Bonds – Series 2003	5,500,000	-	65,000	5,435,000	100,000
Accrued sick leave & vacation	<u>292,042</u>	<u>21,011</u>	<u>-</u>	<u>313,053</u>	<u>-</u>
	<u>\$ 7,557,042</u>	<u>\$ 21,011</u>	<u>\$ 385,000</u>	<u>\$ 7,193,053</u>	<u>\$ 435,000</u>

Significant details regarding outstanding long-term liabilities are presented below:

MTF Bonds – Series 1998 –

The County of Eaton, Michigan issued \$5,610,000 of Michigan Transportation Fund Bonds, Series 1998, dated June 1, 1998 pursuant to the provision Act 51, Public Acts of Michigan of 1951, as amended. The bonds are issued in anticipation of and are payable from money derived from state collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction work incidental thereto pursuant to Act 51.

The bonds are also a general obligation of the County of Eaton, which pledged its full faith and credit for the prompt and timely payment of the principal and interest of such bonds, in the event of insufficiency of said state returned taxes. The full faith and credit pledge of the County is a limited tax general obligation and the County is required to pay the debt service requirements on the bonds as a first budget obligation from its general funds, including the collections of any ad valorem taxes which the County is authorized to levy. However, the ability of the County to levy such taxes is subject to applicable charter, statutory and constitutional tax limitations.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 9 - LONG-TERM LIABILITIES - (cont'd):

Bonds of this issue maturing in the years 2005 and 2006, inclusive, shall not be subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2007 and 2008, inclusive, shall be subject to redemption prior to maturity, at the option of the County, in such order as the County may determine and by lot within any maturity, on any interest payment date on or after August 1, 2006, at par plus accrued interest to the date fixed for redemption.

Principal on the bonds is due on August 1, 2005 through 2008 with interest due semi-annually on February 1 and August 1 at interest rates ranging from 4.00% to 4.15%.

MTF Bonds – Series 2003 –

The County of Eaton, Michigan issued \$5,500,000 of Michigan Transportation Fund Bonds, Series 2003, dated July 1, 2003 pursuant to the provision Act 51, Public Acts of Michigan of 1951, as amended. The bonds are issued in anticipation of the Michigan Transportation Fund payments to be received by the County, which are returned to the Road Commission from the Michigan Transportation Fund for the cost of constructing, improving, maintaining, and repairing certain road commission buildings.

The bonds are also a general obligation of the County of Eaton, Michigan, which pledged its full faith and credit for the prompt and timely payment of the principal and interest of such bonds, in the event of insufficiency of said state returned taxes. The full faith and credit pledge of the County is a limited tax general obligation and from its general funds, including the collections of any ad valorem taxes which the County is authorized to levy. However, the ability of the County to levy such taxes is subject to applicable charter, statutory and constitutional tax limitations.

Bonds of this issue maturing in the years 2005 through 2013, inclusive, shall not be subjected to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2014 through 2018, inclusive shall be subject to redemption prior to maturity, at the option of the County, in such order as the County may determine and by lot within any maturity, on any interest payment date on or after August 1, 2013, at par plus accrued interest to the date fixed for redemption.

Principal on the bonds is due on August 1, 2005 through 2018 with interest due semi-annually on February 1 and August 1 at interest rates ranging from 2.5% to 4.0%.

The annual requirements to amortize long-term liability outstanding at September 30, 2004, except compensated absences are as follows:

	<u>MTF Bonds – Series 1998</u>		<u>MTF Bonds – Series 2003</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2005	\$ 335,000	\$ 58,755	\$ 100,000	\$ 183,931	\$ 677,686
2006	350,000	45,355	105,000	181,431	681,786

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 9 - LONG-TERM LIABILITIES - (cont'd):

	<u>MTF Bonds – Series 1998</u>		<u>MTF Bonds – Series 2003</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 370,000	\$ 31,355	\$ 105,000	\$ 178,806	\$ 685,161
2008	390,000	16,185	105,000	176,181	687,366
2009	-	-	500,000	173,425	673,425
2010-2014	-	-	2,500,000	544,325	3,044,325
2015-2018	-	-	<u>2,020,000</u>	<u>197,825</u>	<u>2,217,825</u>
	<u>\$ 1,445,000</u>	<u>\$ 151,650</u>	<u>\$ 5,435,000</u>	<u>\$ 1,635,924</u>	<u>\$ 8,667,574</u>

Accrued Sick and Vacation

Employees are granted vacation and sick leave in varying amounts based on the Commission's administrative policy and contract with union employees. Vacation time is credited annually to each employee, but cannot be accumulated for more than one year. Employees are limited to (160 days) 1,280 hours of sick leave accumulation. Upon retirement or permanent disability the employment of the Road Commission, all union employees are paid 50 percent of their accumulated sick leave. Vacation is paid out at 100% at the end of each year. The dollar amount of these vested rights which has been accrued on the financial statements amounted to approximately \$313,053 at September 30, 2004.

NOTE 10 - EMPLOYEE PENSION:

Active Plan Description –

The Eaton County Road Commission provides pension benefits for substantially all of its regular full-time employees through a defined contribution pension plan. The Eaton County Road Commission is the plan administrator, however the everyday administration and operations of the plan is through the American Funds Group. The Road Commission makes bi-weekly contributions to the plan.

The Road Commission contributes an amount to the plan equal to 12% of employees' compensation during the plan year, after completion of one year of service. Members do not contribute any annual compensation to this plan.

Eligibility for plan participation is as follows:

- Be at least eighteen (18) years of age
- Have at least one (1) year of service
- Truthfully complete all applications or questionnaires required for enrollment

The plan provides for the following retirement provision:

Normal Retirement – The plan has set the normal retirement date as the plan anniversary nearest the participant's 65th birthday.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 10 - EMPLOYEE PENSION - (cont'd):

Early Retirement – The plan allows early retirement within ten years of the normal retirement date at 100% benefits.

Late Retirement – The plan allows for late retirement with the consent of the Road Commission, but no later than age 75. Contributions continue until actual retirement.

Disability Retirement – The plan allows for disability retirement if a participant becomes totally and permanently disabled. The pension payments may be received immediately with the amount depending on the value of the Participant Account at the time of retirement.

Vesting in the plan is 100% upon entry.

Unless elected otherwise, payment of retirement benefits will begin no later than the end of the plan year during which the participant retires or terminates. Participants may make a written election to begin receiving benefits at a later date if a participant is not married. When benefit payments start, the normal annuity form would be an annuity for the participant's life. If married, the annuity form would be a "Joint and Survivor Annuity", unless another election is made. This annuity form provides both individuals with joint income for life. If the participant dies after beginning the annuity, the beneficiary will be entitled to 100% of the participants account balance up to the participants death, and 50% of such account balance as the "spouse's death benefit".

Subject to the terms of the Plan and current law, a participant may elect to receive benefits in one of several alternate forms. These forms include:

1. Lump sum (cash)
2. An annuity for participant's life
3. A joint annuity for participant and designated beneficiary
4. Installment payments for a specified period which may not exceed participant life expectancy
5. Installment payments for a specific period not to exceed the life expectancy of the participant and designated beneficiary.

Payments may vary among the different settlement options, but all have equal value.

If a participant terminates employment with the Road Commission for any reason other than death, disability, or retirement, the participant will be entitled to receive the vested portion on various distribution schedules depending on the present value amount in the participants account and personal election.

The Road Commission's contributions to the plan for the year ended September 30, 2004, are \$200,682.

The information required by the Governmental Accounting Standards Board Statement 5 concerning "accounting policies and plan asset matters" is not provided in the annual reports issued by the administrators.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 10 - EMPLOYEE PENSION - (cont'd):

Other Plan Description –

The Road Commission also has a defined contribution pension plan administered by Sun Life Assurance of Canada which was frozen in January, 1986. No contributions have been made to this plan since that date. The participant is entitled to a distribution only upon death, retirement or termination from the Road Commission. Since January, 1986, an interest amount of approximately 3% compounded annually has been added to the balance as per the plan agreement.

NOTE 11 - POST EMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 10, the Eaton County Road Commission provides post-employment health care to eligible employees who retire from the Road Commission on or after attaining retirement age (59-1/2) with at least ten years of continuous service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the year ended September 30, 2004 these costs amounted to approximately \$227,034 with 33 eligible participants.

NOTE 12 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Eaton County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

NOTE 13 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop-loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 13 - RISK MANAGEMENT - (cont'd):

The Road Commission is also a member of the County Road Association Self Insurance Fund for workers' compensation insurance. The Fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The Fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

NOTE 14 - FUND BALANCE - RESERVED/NET ASSETS - RESTRICTED:

A portion of the fund balance has been segregated for prepaid items in the amount of \$22,695 to indicate that prepaid items do not represent expendable, available financial resources.

A portion of the fund balance and net assets has been segregated for the amount restricted by Michigan Public Act 51 for Primary Roads of \$392,617 and Local Roads of \$1,006,562 as determined by completion of the Michigan Department of Transportation's Act 51 Report required at the end of the Road Commission's fiscal year.

SUPPLEMENTARY INFORMATION

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

DETAIL SCHEDULE OF REVENUES AND OTHER SOURCES
GENERAL OPERATING FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	2003
Revenues:		
Licenses and permits	\$ 94,346	\$ 89,803
Federal Sources -		
D Funds	443	83,113
Surface Transportation Program (STP)	12,189	535,822
Critical Bridge	474,750	412,443
C Funds	319,201	-
Other- Hazard Elimination	120,055	-
	<u>926,638</u>	<u>1,031,378</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	4,976,861	4,826,489
Local roads	2,276,912	2,130,960
Primary urban roads	919,315	863,717
Local urban roads	252,909	238,110
Economic Development Fund	27,728	10,676,091
State critical bridge	89,016	77,333
	<u>8,552,741</u>	<u>18,822,700</u>
Local Sources -		
City and Village contributions	38,030	100,315
Township contributions	623,287	1,200,840
Other	695,250	812,501
	<u>1,356,567</u>	<u>2,113,656</u>
 Interest and rents	 <u>33,622</u>	 <u>26,347</u>
 Other -		
Gain (loss) on equipment disposal	(419)	25,551
Sundry refunds	103,956	365,934
Other	6,271	7,273
	<u>109,808</u>	<u>398,758</u>
 Total Revenues	 <u>11,073,722</u>	 <u>22,482,642</u>
 Other Financing Sources:		
County appropriation	69,850.37	68,275
Bond Proceeds	-	5,451,120
	<u>69,850.37</u>	<u>5,519,395</u>
 Total Revenues and other sources	 <u>\$ 11,143,572</u>	 <u>\$ 28,002,037</u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Expenditures:		
Construction -		
Primary roads and structures	\$ 2,960,495	\$ 5,672,639
Local roads and structures	<u>695,250</u>	<u>812,573</u>
	<u>3,655,745</u>	<u>6,485,212</u>
Heavy Maintenance -		
Primary roads and structures	3,659,546	4,641,229
Local roads and structures	<u>1,779,917</u>	<u>1,936,860</u>
	<u>5,439,463</u>	<u>6,578,089</u>
Maintenance -		
Primary roads and structures,		
winter maintenance and traffic control	1,681,915	1,517,774
Local roads and structures,		
winter maintenance and traffic control	<u>2,051,431</u>	<u>1,740,068</u>
	<u>3,733,346</u>	<u>3,257,842</u>
Equipment -		
Direct	656,265	767,273
Indirect	829,765	637,695
Operating	161,497	142,506
Less - equipment rental	<u>(1,237,083)</u>	<u>(1,167,505)</u>
	<u>410,444</u>	<u>379,969</u>
Administrative -		
Administration	788,171	682,740
Less - handling charges	(406)	(351)
- purchase discounts	<u>(10,039)</u>	<u>(4,979)</u>
	<u>777,726</u>	<u>677,410</u>
Other	<u>330,385</u>	<u>314,929</u>
Capital Outlay -		
Land improvements, building		
and equipment	3,405,893	2,179,538
Less - depreciation	(614,087)	(628,335)
- retirements	<u>(419)</u>	<u>(501)</u>
	<u>2,791,387</u>	<u>1,550,702</u>
Debt Service -		
Principal retirement	385,000	845,000
Interest and fiscal charges	<u>272,837</u>	<u>95,346</u>
	<u>657,837</u>	<u>940,346</u>
Total Expenditures	<u><u>\$ 17,796,333</u></u>	<u><u>\$ 20,184,499</u></u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan-General Operating Fund

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS GENERAL OPERATING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Primary Road	Local Road	County Road	Total
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 94,346	\$ 94,346
Intergovernmental -				
Federal Sources	723,075	203,563	-	926,638
State Sources	5,938,913	2,613,828	-	8,552,741
Local Sources	-	1,356,567	-	1,356,567
Interest and rent	17,307	7,417	8,898	33,622
Other	-	6,270	103,538	109,808
	<u>6,679,295</u>	<u>4,187,645</u>	<u>206,782</u>	<u>11,073,722</u>
Other Financing Sources:				
County appropriation	-	-	69,850	69,850
	<u>-</u>	<u>-</u>	<u>69,850</u>	<u>69,850</u>
 Total Revenues and Other Sources	 <u>6,679,295</u>	 <u>4,187,645</u>	 <u>276,632</u>	 <u>11,143,572</u>
Expenditures:				
Current -				
Construction	2,960,495	695,250	-	3,655,745
Heavy Maintenance	3,659,546	1,779,917	-	5,439,463
Maintenance	1,681,915	2,051,431	-	3,733,346
Administrative	503,303	274,423	-	777,726
Equipment - net	168,569	219,875	22,000	410,444
Other	-	330,385	-	330,385
Capital outlay - net	-	-	2,791,387	2,791,387
Debt Service -				
Principal retirement	320,000	-	65,000	385,000
Interest and fiscal charges	71,705	-	201,132	272,837
Total Expenditures	<u>9,365,533</u>	<u>5,351,281</u>	<u>3,079,519</u>	<u>17,796,333</u>
Excess of revenues and other sources over (under) expenditures before optional transfers	(2,686,238)	(1,163,636)	(2,802,887)	(6,652,761)
Optional transfers	<u>(1,770,802)</u>	<u>1,770,802</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures	(4,457,040)	607,166	(2,802,887)	(6,652,761)
Fund Balance at October 1, 2003	<u>4,849,657</u>	<u>399,396</u>	<u>4,955,163</u>	<u>10,204,216</u>
Fund Balance at September 30, 2004	<u>\$ 392,617</u>	<u>\$ 1,006,562</u>	<u>\$ 2,152,276</u>	<u>\$ 3,551,455</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of County Road
Commissioners of Eaton County
Eaton, Michigan

We have audited the financial statements of the Eaton County Road Commission, a component unit of Eaton County, Michigan, as of and for the year ended September 30, 2004, and have issued our report thereon, dated December 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Eaton County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Eaton County Road commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and the Board of County Road Commissioners of the Eaton County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Stewart, Beauvais & Whipple
Certified Public Accountants

December 14, 2004